

PDF hosted at the Radboud Repository of the Radboud University Nijmegen

The following full text is a postprint version which may differ from the publisher's version.

For additional information about this publication click this link.

<http://hdl.handle.net/2066/100589>

Please be advised that this information was generated on 2017-12-06 and may be subject to change.

Radboud University Nijmegen



Integrating Skype within Microsoft

Case Study

Reference: NSM-2012-04

Associate Professor Olivier Furrer, Radboud University Nijmegen, prepared this case with the assistance of master students Lianne van Heeswijk and Emiel R. Hoffer. It is intended to be used as the basis for class discussion rather than to illustrate either the effective or ineffective handling of a management situation. The case was compiled from published sources.

© 2012 Radboud University Nijmegen

No part of this publication may be copied, stored, transmitted, reproduced, or distributed in any form or by any means without the permission of the copyright owner.

By combining the two leading e-commerce franchises, eBay and PayPal, with the leader in Internet voice communication, we will create an extraordinarily powerful environment for business on the Net.

—Meg Whitman, eBay President and Chief Executive Officer (CEO), September 12, 2005

It's clear that Skype has limited synergies with eBay and PayPal. We believe operating Skype as a stand-alone publicly traded company is the best path for maximizing its potential.

—John Donahoe, eBay President and CEO, April 14, 2009

Skype is a phenomenal service that is loved by millions of people around the world. Together we will create the future of real-time communications so people can easily stay connected to family, friends, clients and colleagues anywhere in the world.

—Steve Ballmer, Microsoft President and CEO, May 10, 2011

Introduction

On May 10, 2011,¹ Microsoft Corp. and Skype announced that they had entered into a definitive agreement under which Microsoft would acquire Skype for \$8.5 billion from the investor group led by Silver Lake Partners, Index Ventures, Andreessen Horowitz, and the Canada Pension funds. At the time of this announcement, Steve Ballmer, President and CEO of Microsoft, hyped the promise of the merger,² though it was not the first time a technology giant had acquired Skype.³ In 2005, eBay took it over for \$2.6 billion, with hopes of integrating it with its marketplace and PayPal businesses. But the acquisition never lived up to its promise, leading eBay to take a \$1.4 billion write-down on its investment in 2007 and eventually divest Skype in 2009.

Skype offers voice and video communications to anyone with an Internet connection. Its various services include voicemail, instant messaging, call forwarding, and conference calling. Skype is the market leader in virtually all countries in which it does business.⁴ However, its “freemium” business model,⁵ which grants customers the means to use its basic services (i.e., calling to and chatting with other Skype users) for free, was making the life of Skype, as a stand-alone company, risky and unsustainable.

In August 2010, after just over a year of stand-alone activities, Skype filed a Form S-1 registration statement with the Securities and Exchange Commission in New York, in preparation for an initial public offer (IPO). Yahoo!, Google, Facebook, and Cisco all showed interest;⁶ at around the same time, Microsoft expressed its intention to acquire Skype. According to Microsoft’s top management,⁷ the acquisition would increase the accessibility of real-time video and voice communications, bring benefits to both

Microsoft's consumer and enterprise users, and generate significant new business and revenue opportunities. As a press release promised, "The combination will extend Skype's world-class brand and the reach of its networked platform, while enhancing Microsoft's existing portfolio of real-time communications products and services."⁸

This synergy rationale seemed familiar—probably because it resembled the one used in 2005 when eBay acquired Skype. At that time, Margaret (Meg) Whitman, then president and CEO of eBay, anticipated that Skype, eBay, and PayPal would generate massive synergies. She claimed, "Online shopping depends on a number of factors to function well. Communications, like payments and shipping, is a critical part of the process. Skype should help to streamline and improve communications between buyers and sellers when integrated into the eBay marketplace."⁹ But the anticipated synergies never materialized. Although Skype grew rapidly under eBay's ownership, few synergies emerged between Skype's services and eBay's other businesses. Therefore, eBay made the decision, after four years, to divest Skype. Could Microsoft be more successful in achieving synergies with Skype?

Skype

Skype is the leading service provider of voice and video communications through the Internet. Skype's various services include voicemail, instant messaging, call forwarding, and conference calling (see Exhibit 1). Among other services, Skype offers *SkypeOut*, a user-friendly platform that enables users to call landlines and mobile phones for a fee (calls within the United States and Canada are free of charge). Through *SkypeIn*, users can receive calls on their computers from regular phone subscribers using landlines, whereas *SkypeVoiceMail* allows callers to leave voice mails, and *SkypeChat* supports text chats. *Skype Video Calling* supports video conferencing and video chat; *Skype SMS* can be used to send short messages to mobile numbers. Finally, Skype provides a service for mobile phone users called *SkypePhone*.

The History of Skype

Founded in 2002 by Niklas Zennström and Janus Friis, Skype is headquartered in Luxembourg. After the two entrepreneurs from Sweden and Denmark successfully launched the peer-to-peer file-sharing software Kazaa,¹⁰ Zennström and Friis created a software application to enable people to make free telephone calls over the Internet. First

called Skyper, the name was later shortened when the company learned “Skyper” was not available on important website domains.¹¹

Zennström and Friis acquired investment funds from two venture capital firms, Draper Fisher Jurvetson and Index Ventures,¹² to complete their software development. Skype officially launched in August 2003 with 30 people who were secretly asked to try the software. Despite this secrecy, a mere three months later, 2.3 million users had downloaded the program.¹³ Skype developed a “freemium” business model, which offered the baseline product for free, with unlimited, worldwide calling to other Skype users, easy-to-use software, superior call quality, online presence, group instant messaging, simple installation, and compatibility with many operating systems (e.g., Mac OS X, Windows, Linux). In addition, to generate revenues, the company offered paid premium features, such as voicemail and prepaid calling to landlines. These developments helped the company achieve significant growth in both size and revenues. By April 2005, Skype software had been downloaded more than 100 million times and used in approximately 85 different countries, including China, Taiwan, and the United States. Revenues came mainly from fees charged for calls from Skype to outside lines (SkypeOut) or vice versa (SkypeIn). Additional fees applied to international calls, voicemail services, and extra features, such as ringtones. Skype generated estimated margins of 20–25%.

The eBay Era

In October 2005, eBay acquired Skype for \$2.6 billion in cash and stock, mainly to strengthen its global marketplace and payment platform. Meg Whitman anticipated that Skype, eBay, and PayPal would create an unparalleled e-commerce and communications engine for buyers and sellers.¹⁴ With Skype, eBay buyers would gain easy and quick access to sellers, who could provide the information needed to facilitate the purchase; eBay sellers also could build relationships more easily with their customers and thus close more sales. Skype would increase the velocity of trade on eBay, especially in categories that required more involved communications, such as used cars, business and industrial equipment, or high-end collectibles.

For Skype, the deal represented a major opportunity to advance its leadership in Internet voice communications. As Whitman promised, “Communications is at the heart of e-commerce and community.... By combining the two leading e-commerce franchises,

eBay and PayPal, with the leader in Internet voice communications, we will create an extraordinarily powerful environment for business on the Net.”¹⁵ In addition, Skype seemingly would expand eBay’s and PayPal’s global footprint by providing buyers and sellers in emerging e-commerce markets (e.g., Brazil, China, India, Russia) with more personalized online communications. Customers in markets with a limited eBay presence, such as Japan and Scandinavia, could learn about eBay and PayPal through Skype. Its rapidly expanding network of users made Skype seem like the perfect complement to eBay and PayPal. Each business would be self-reinforcing and organically produce greater returns with each new user or transaction. The three services also could reinforce and accelerate one another’s growth, thereby increasing the value of the combined businesses.

At first, the acquisition seemed successful. In 2006, the first full year it fell under eBay ownership, Skype’s sales increased to \$195 million, from \$24 million in 2005. During the last quarter of 2007, nearly 200 million people used Skype Internet phone service.¹⁶ But the anticipated synergies that drove the acquisition appeared more difficult to achieve than initially thought. As Whitman’s hopes of synergies with Skype failed to materialize, eBay was forced to write down the value of Skype by \$900 million and pay an additional \$530 million as a final settlement to Skype’s previous owner (the initial amount, based on active user, revenue, and gross profit targets, was \$1.7 billion).

In March 2008, after nearly a decade at the head of eBay, Whitman decided to step down and was replaced by John Donahoe. Just a year later, Donahoe announced his plans to separate Skype from eBay, using an IPO.¹⁷ The decision to separate was based on a timeline Donahoe outlined when he became eBay’s CEO in April 2008, in which he would spend a year evaluating Skype and its potential synergies within the eBay portfolio before making any decisions. At that time, he also stressed that he would not force synergies in eBay’s portfolio.

In 2008, Skype generated revenues of \$551 million, up 44%, and margins of approximately 21%; in the first six months of 2009, reported revenues were \$323 million.¹⁸ The number of registered users reached 405 million by the end of 2008, up 47% from 2007, then continued to increase significantly throughout the year, reaching 480.5 million in July 2009. In the third quarter of 2009, Skype users made 27.7 billion minutes of Skype-to-Skype calls, and more than one-third of them were video calls,

completed for free. Responsible for 8% of global international calling minutes, with users making 3.1 billion minutes of calls to landlines and mobiles, Skype seemingly had enough strength to survive as a stand-alone company.

On April 14, 2009, eBay publicly announced plans to separate from Skype. “Skype is a great stand-alone business with strong fundamentals and accelerating momentum,” explained Donahoe, adding that Skype

has limited synergies with eBay and PayPal. We believe operating Skype as a stand-alone publicly traded company is the best path for maximizing its potential. This will give Skype the focus and resources required to continue its growth and effectively compete in online voice and video communications. In addition, separating Skype will allow eBay to focus entirely on our two core growth engines—e-commerce and online payments—and deliver long-term value to our shareholders.¹⁹

The companies reached a definitive agreement on September 1, 2009, in which eBay sold Skype, valued at \$2.75 billion (*see Exhibit 5*). On November 19, 2009, eBay had successfully completed the sale to the investor group, led by Silver Lake but also including Jolid Limited, Zennström and Frus, the Canada Pension Plan Investment Board, and Andreessen Horowitz, which would control approximately 65% of the business. eBay received \$1.9 billion in cash and a note on the principal amount of \$125 million, thus retaining an approximate 35% equity investment in Skype.

So maybe Skype was not such a bad acquisition after all. eBay was able to sell it for more than many analysts thought would be possible and still maintain a 35% stake in this high-growth business. It never produced the synergies eBay hoped for, yet by 2009, Skype was a much stronger, more profitable business than it was when eBay bought it.²⁰ Donahoe later explained, “When we bought Skype we thought it had synergies with our other two businesses, and it turns out it did not. But it also turned out that it’s a great stand-alone business.”²¹ Accordingly, Kevin Werbach, a legal studies and business ethics professor at Wharton Business School, argued that “Now that Skype is on a solid business footing, I think it will be better off independent.”²² The Skype acquisition might not have succeeded, but both companies emerged relatively unscathed.

Skype After eBay

Skype's future arguably was brighter in 2009 than when it was just another hot startup in 2003. However, even with more subscribers than any other telecom provider in the world, Skype still needed to hone its growth strategy, especially as competition from Google and Microsoft loomed. In particular, it needed to find new ways to monetize a service that most customers were accustomed to getting for free.

Real-time voice communication is a trillion-dollar global business, so there had to be ways for the most subscribed telephone company to monetize its assets. But to succeed on its own, Skype needed to generate more revenues from its current and future users. Although Skype had no shortage of services (*see* Exhibit 1), none of them was developed fully. It also has relied largely on its freemium business model. Skype's primary source of revenue came from the relatively inexpensive per minute rates it charged SkypeOut customers (10–15% of all users) to call phone landlines and cell phones. A call from Skype to a non-Skype number costs a little more than 2 cents a minute; calls within the network are free. Skype also sells numbers for use on mobile telephones, which allow a caller to secure local rates when traveling and save on long-distance calling charges.

These revenue streams are not enough though. To succeed as a standalone company, Skype must develop new lines of business or ramp up its existing ones. Under eBay's umbrella, Skype improved its products and services, but it still did not achieve sufficient monetization. Because large premiums seemed more likely to come from corporate services, Skype started to target business markets more aggressively. However, this strategy might have required Skype to diversify into collaboration software, similar to Cisco Systems' WebEx, or into videoconferencing services. In March 2009, it announced a test program, Skype for SIP (or session initiation protocol, a standard for voice-over-Internet protocol telephony in corporate networks), which would allow companies to use Skype's network. The program got a boost in early September 2009, when ShoreTel, which provides corporate phone services, said its system would connect to Skype for SIP.²³

Skype's Reorganization

To improve its operations, Skype started a reorganization of its activities in 2009 under the mantra of providing "Skype Everywhere" (*see* Exhibit 2).²⁴ As outlined by Skype's

Chief Operating Officer (COO) Scott Durschlag, Skype was restructured along two axes: product and geography. The global product offerings unit would encompass three divisions: consumer, business, and mobile, each responsible for developing products. To improve cross-unit transfer of best practices, each group also would interact with Daniel Berg, Skype's Chief Technology Officer (CTO), to convert their technology developments into marketable global product offerings and to adapt the technology to meet product marketing needs.²⁵ The groups were organized as follows:

- Consumer: current Skype client desktop offerings and hardware, such as Skype phones.
- Business: current Skype Business Control Panel, expanding into a range of offerings, such as Skype for Asterisk and the recently announced IBM LotusLive developments, to address small to medium business markets.
- Mobile: current products such as Skype for Windows Mobile, Skypephone, and the recently launched Skype Lite, as well as any upcoming offerings for the iPhone and BlackBerry.

In addition, each division would be responsible for developing appropriate customer care and support programs to meet market demands. The business unit thus would come up with ongoing support programs relevant to the sustainable business operations of its product users.

The geography axis reflected the recognition that, despite the global mandate of the products divisions, different market needs arise in different regions of the world. In many Asian markets, wireless carriers do not subsidize mobile phones, as is the practice in North America and Europe. The differentiated approaches to these markets thus must address how easily innovations, especially with reduced calling costs, can be introduced to these markets. The geographical market responsibilities were as follows: (1) the Americas, (2) Europe, Middle East, Africa (EMEA), and (3) Asia/Pacific.²⁶

Following these restructuring activities, from June 30, 2009 to June 30, 2010, Skype continued to grow fast. The company increased its number of registered users from 397 million to 560 million. These users made 95 billion minutes of voice and video calls.²⁷

However, despite its huge popularity, Skype still struggled to maintain its profitability. With its mostly free services, Skype only earned income from a small group of users paying for long distance calls to landline telephone numbers. Skype needed additional cash to finance its growth; on August 9, 2010, it announced its intention to go public. It had filed a Form S-1 registration statement with the Securities and Exchange Commission (SEC) for a proposed IPO of its ordinary shares.²⁸ In October 2010, to manage the IPO, Skype named Tony Bates, a former senior vice president of Cisco Systems, as its new CEO. He quickly announced that he expected the value of the IPO to be between \$750 million and \$1 billion.²⁹ However two months later, considering the risks involved in an IPO and Skype's financial situation, Bates decided to postpone the IPO until the second half of 2011.

Meanwhile, new technological developments continued. On December 30, 2010, Skype announced the new version of its iPhone application, bringing video calling to millions of mobile users around the globe over both 3G and WiFi networks. It allowed iPhone, iPad, and iPod touch owners to make and receive free Skype video calls for the first time. Neil Stevens, general manager of Skype's consumer business explained: "With video calling representing approximately 40% of all Skype-to-Skype minutes for the first six months of 2010, our users have been eager to get Skype video calling on their mobile phones."³⁰

Skype's user base has continued to grow, giving it a huge audience, in combination with strong brand recognition. It also features the unrealized potential associated with a loyal following and first-mover advantage. Some of Skype's newest features suggest its likely potential directions: The latest version of its software, released in 2010, emphasizes face-to-face video chats, and 34% of Skype calls now include video elements, which allow people around the world to connect. However, even as Skype achieved \$859.8 million in revenue in 2010, it reported a net loss of \$7 million that same year³¹ (see Exhibit 3). Given the strengths and power of large competitors, could Skype remain independent?

Skype's Main Competitors

Skype's traditional rivals include telecommunications companies that provide bundled services. Its niche position had kept Skype out of the line of sight of giants such as

AT&T and Verizon or the voice over Internet protocol (VoIP) players such as Vonage. For example, Verizon provides standard landline services, as well as optical fiber line services and (in a joint venture with Microsoft) Verizon Web Calling, a VoIP service within Windows Live Messenger. Vonage's VoIP technology offers low-cost communications services but still generates \$28.38, on average, from each subscriber. Instead, Skype's most direct competitors are Google Voice, Apple FaceTime, Facebook chat, GoToMeeting, and Cisco WebEx (*see* Exhibit 4).

Google Voice service provides, among other things, free phone calls within the United States; *Google Talk* (released in 2005) is a free instant messaging and voice application using VoIP. *Google Voice* provides free PC-to-phone calling and PC-to-PC voice and video calling worldwide between users of the *Google Voice* and *Video Chat* browser plugins.³² *Google Voice* launched on March 11, 2009, after Google acquired *Gizmo5*, a service very similar to *Skype*'s.³³ It had approximately 1.4 million users in late 2009—relatively small compared with *Skype* but with huge potential due to Google's massive reach. The service is configured and maintained by the user in a web-based application, styled after Google's e-mail service, and is integrated into *Google+*, Google's social network, which boasted approximately 25 million users worldwide in mid-2011.³⁴ *Google Voice* software applications are available for Windows, Mac, Linux, and *Google Chrome* operating systems. The service can be used on mobile devices operating the *Blackberry*, *Android*, and *iOS* *Google* applications.

Apple's *FaceTime* is a video calling software application and related protocol developed by Apple for supported mobile devices running *iOS*, in addition to Macintosh computers running *Mac OS X 10.6.6*, which released on January 6, 2011. *FaceTime* is supported on any *iOS* device with a forward-facing camera (which includes all *iOS* devices released since the *iPhone 4*) and any Macintosh computer equipped with a *FaceTime Camera*. *FaceTime* was announced by then-Apple CEO Steve Jobs at his keynote speech on June 7, 2010, during the Worldwide Developers Conference, in conjunction with the *iPhone 4*. However, in terms of features, *Skype* remains superior to *FaceTime*, with its ability to video chat over Wi-Fi and 3G and its cross-platform links to desktops, allowing users to chat with anyone, whether they have Windows, OS X, or Linux. Although *FaceTime* does not offer as many options as *Skype*—remaining limited to *iOS*, Macs, and Wi-Fi—it provides a good video chat experience to customers and could become an important competitor to *Skype*, considering the strengths of Apple.³⁵

Since April 2011, Facebook users have had the ability to make live voice calls via *Facebook Chat*. This feature, provided free through T-Mobile's new Bobsled service, lets users add voice capabilities to the Facebook Chat service, as well as leave voice messages on Facebook. On July 6, 2011, Facebook's CEO Mark Zuckerberg announced that a new Skype-powered video calling capability would be integrated into the Facebook network, along with a new group text chat feature. Video calling allows users to talk to friends face to face. As software engineer Philip Su notes, "Video chat has been around for years now, but it's still not an everyday activity for most people. Sometimes it's too difficult to set up, or the friends you want to talk to are on different services. So a few months ago, we started working with Skype to bring video calling to Facebook. We built it right into chat, so all your conversations start from the same place." With this integration, Facebook is bringing video calling to more than 750 million people.

Citrix Online, a major corporate software player, offers three online meeting solutions: *GoToMeeting*, which allows for a single organizer and up to 15 attendees; *GoToWebinar*, which allows a single organizer to host up to 1000 attendees; and *GoToMeeting Corporate*, which supports several organizers and includes *GoToWebinar* software. Targeted at the corporate market, *GoToMeeting* software allows users to host online meetings; with the web conferencing tool, users can share any application on their computer in real time, and attendees can join meetings that already started. Introduced in July 2004, the software is available for Mac, PC, and mobile devices such as the iPad, iPhone, and devices running on the Android operating system.³⁶

Another major player in the corporate collaboration market, which has been around for quite some time, is *WebEx*, now part of Cisco, which was founded in 1997 by Subrah Iyar and Min Zhu. *WebEx* provides a wide variety of online collaboration services built around web and video conferencing. In 2006, 82 of the *Fortune* 100 companies used *WebEx*'s services.³⁷ In the same year, 2.2 million registered users used the *WebEx* service to connect and meet with their colleagues worldwide.³⁸

Skype also faces competition from recent startups, such as Vivox, Jaxtr, Jangl, Jajah and ooVoo. Founded in the fall of 2005, Vivox provides managed communication services in the form of integrated voice chat, instant messaging, and virtual presence services for online games, virtual worlds, and other online communities, such as Second Life, EVE Online, and Combat Arms. Jaxtr is a social communications firm that

combines global calling, SMS, and social networking through VoIP, which enables it to offer competitive rates and free international and long distance calls. In particular, Jaxtr supports phone-to-phone calls to and from any mobile and landline phones, offers social networking voice access in its Café Jaxtr, does not require software downloads or access codes, and gives users local direct inward dialing (DID) telephone numbers in 56 countries. Jangl's main offer instead focuses on the ability to talk and text safely and anonymously on online dating sites, social networking sites, classified ad sites, auction sites, blogs, or any other online communication site. Together with Facebook, Bebo, Match.com, Friendster, AdultFriendFinder, Tagged, PlentyOfFish, and Jangl's marketing applications enable text messaging, voice, and voicemail for members. Jajah, a company launched in March 2006, offers services similar to those of Skype; in 2009, it was acquired by the Spanish telecom giant Telefonica.³⁹ Finally, ooVoo, with 35 million users worldwide, was founded in 2006 by the entrepreneur Clayton Mathile. The software is based on a technology developed at Arel Communications and Software. In June 2007, ooVoo's PC version launched, allowing high quality video chat all over the world. In February 2008, video call recording and phone calling followed. In early 2008, it launched a Mac-based version,⁴⁰ and by the middle of 2011, iPhone and Android mobile operating systems were added to the services.⁴¹

Potential Partners

Rather than an IPO, Skype considered the benefits of a merger with or an acquisition by a strong partner. Companies such as Yahoo!, Google, and Facebook had expressed interest,⁴² and Cisco was considering a purchase before Skype went public.

Yahoo! Rumors of merger talks with Yahoo! began in 2005, even before Skype's acquisition by eBay.⁴³ Yahoo! entered the field in 2009, through Yahoo! Messenger, which is available in multiple countries.⁴⁴ Yahoo! Messenger offers PC-to-PC, PC-to-phone, and phone-to-PC services, as well as file transfers, webcam hosting, and text messaging services. There are approximately 65 million people using a Yahoo! ID, which enables them to use Yahoo! Messenger as well.⁴⁵ Yahoo! has bundles of cash to promote and extend its reach. However, Yahoo! has always fallen behind Skype in the VoIP market, and a merger could strengthen both companies.

Cisco Systems. Acquiring Skype could provide Cisco with strategic advantages over its competitors. Cisco has been aggressively expanding beyond networking hardware to diversify its sources of revenue. It completed the acquisition of Tandberg, a global leader in video conferencing, on April 18, 2010, in an effort to strengthen its position in the video conferencing market. Acquiring Skype would provide Cisco with technology and intangible intellectual assets.⁴⁶ Cisco also would be handed the tools to compete with Microsoft and other communication rivals.

Google Inc. In the years before 2011, rumors had it that Google would be purchasing Skype.⁴⁷ Google would provide Skype with the potential to increase ad-based revenues to pursue real profits. Google could also integrate Skype into Google voice, which would give it more features and create a social factor that was lacking.⁴⁸ One of the pitfalls though would be connecting one of Skype's key assets, its peer-to-peer technology, with Google's newer paradigm of cloud operations, such that Skype's platform would have to be re-written. Buying Skype could also provoke an extensive government review that could last up to two years, during which time Google would be at a standstill, and any momentum from the acquisition would be lost.⁴⁹

Facebook. In the heated negotiations surrounding Skype's acquisition, Facebook took a prominent position as well. Facebook already has a much larger user base than Skype, and a large percentage of Skype's registered users already had an account on Facebook.⁵⁰ Increasing its user base would not be Facebook's way of creating synergy with Skype; instead, Facebook might benefit from Skype's underlying technology and the established service and brand recognition it offers. This way, instead of taking a greenfield entry into the computer voice communications business, Facebook could acquire intangible, high-tech knowledge and a competitive advantage with respect to its main rivals: Yahoo!, Apple, Google, and Cisco.

The Acquisition by Microsoft

The Skype IPO never occurred. After having operated as a stand-alone company for approximately 18 months, and developing even more mobile services, Skype found a new corporate parent: Microsoft.

Microsoft's History

Microsoft was founded in 1975 by two school friends, Bill Gates and Paul Allen, who were both in their teens. The company's first product was a condensed version of the programming language BASIC for the microcomputer, the MITS Altair computer. Over the next few years, Microsoft developed versions of other programming languages, making the company the leading distributor of software development tools. The first critical turning point in the company's success came in 1981, when it licensed Microsoft Disk Operating System (MS-DOS), a 16-bit operating system for the new personal computer (PC) being developed by IBM. Microsoft negotiated a very favorable contract with IBM, which enabled it to piggyback on the resounding success of the IBM PC. In 1985 Microsoft shipped the first version of Windows, a graphics-based version of MS-DOS. Windows remains one of the biggest contributors to the company's revenue, with frequent upgrades introduced every few years. In 1986, Microsoft went public with an offering of \$21 per share, resulting in Gates and Allen becoming billionaires overnight. In 1989, the company launched the Microsoft Office software suite, which, along with Windows, became one of the company's flagship products.

In 1995, Microsoft realized it could no longer ignore the growing significance of the Internet and the networked economy and launched the Microsoft Network (MSN), a web portal that offered an assortment of Internet services. It launched its Xbox in 2001, after realizing the impact that the booming videogame market may have on its traditional PC and software domains. Then in 2002, Microsoft and its partners launched the Tablet PC, which could function like a sheet of paper and accept data input from several modes, such as a keyboard, mouse, pen, or voice. Windows 7, the first PC operating system by Microsoft that did not require more advanced machines to run than prior versions, launched in 2009; it was touted by the company as the "fastest selling operating system in history."⁵¹

Since its inception, Microsoft had been in the business of "creating technology that transforms the way people work, play, and communicate."⁵² The company became truly global in April 2010, with offices in more than 100 countries and a global headcount of over 88,000 employees. However, the fiscal year ending June 30, 2009, was a difficult one for Microsoft, when the company reported its first-ever annual drop in sales. It had still earned \$58.44 billion in sales, but this level was a 3.2% fall from the previous year's sales of \$60.42 billion. Net profit had dropped by 17%, from \$17.68

billion to \$14.57 billion. However, with the successful launch of Windows 7 and Office 2010, the year ending June 30, 2010, improved; revenues reached \$62.48 billion, and net profits were \$18.76 billion. In the following fiscal year, Microsoft established new company records with revenue of \$69.94 billion and net profit of \$23.15 billion (see Exhibit 7).

Microsoft Business Portfolio

In 2011, Microsoft comprised five segments: (1) Windows & Windows Live Division (i.e., the Client division), (2) Server and Tools, (3) the Online Services Division, (4) the Microsoft Business Division, and (5) the Entertainment and Devices Division (see Exhibit 6).

The *Client division* produces the flagship Windows OS line and the Windows Live family of products and services. It is also responsible for relationships with PC manufacturers. For the fiscal year 2010, this segment contributed approximately 18.5% of Microsoft's overall revenue.

Server and Tools produces the server versions of Windows, as well as a set of development tools. Its primary target is to improve productivity and efficiency for developers and technology professionals. It also offers training and consulting services.

The *Online Services Business* division handles the online service MSN and the search engine Bing. As of December 2009, the company also possessed an 18% ownership of the cable news channel MSNBC, without any editorial control; this division also develops the channel's website, msnbc.com, in a joint venture with the channel's co-owner, NBC Universal.

The *Business Division* is the largest contributor of Microsoft's total revenue, with 18.6%. It produces the Microsoft Office line of office software, which includes Word, Access, Excel, Outlook, PowerPoint, Publisher, and Sharepoint. The division also develops enterprise resource planning (ERP) software for companies under the Microsoft Dynamics brand, though 90% of its revenue comes from the Microsoft Office packages.

The *Entertainment and Devices Division* produces the Windows CE OS for embedded systems and Windows Phone for smartphones. The division also produces computer games that run on Windows PCs and other systems, and it houses the Macintosh Business Unit, which produces Mac OS software including Microsoft Office

for Mac. Microsoft's Entertainment and Devices Division also designs, markets, and manufactures consumer electronics, including the Xbox 360 game console, the handheld Zune media player, and the television-based Internet appliance MSN TV.

Microsoft's Acquisition Strategy

To achieve its growth goals, Microsoft pursued a strategy of acquisitions (*see Exhibit 8 for Microsoft's acquisitions between 2005 and 2011*). Over the years, Microsoft has made several key acquisitions, including Hotmail (1997) for \$500 million, Visio Corporation (2000) for \$1.38 billion, Navision (2002) for \$1.33 billion, and aQuantive (2007) for \$6.33 billion.⁵³ Some acquisitions were fully integrated within Microsoft, such as Visio Corporation, which entered Microsoft's product line as "Microsoft Vision." Others, such as Hotmail, remained separate entities to protect their brand name or independence. Certain acquisitions also allowed Microsoft to move into unrelated businesses, such as enterprise telephony through the 2007 acquisition of Tellme Networks, a developer of telephone-based applications. Tellme Networks provided directory assistance for AT&T and Verizon (landline), customer service for Merrill Lynch, E*TRADE Financial, and American Airlines, and e-commerce services for Fandango.

Hotmail was launched in 1996 by Sabeer Bhatia and Jack Smith and was one of the first free webmail services online, which could be accessed from anywhere in the world. Free storage up to 2 MB was available for all users, and in little over a year, Hotmail had more than 8.5 million subscribers. In December 1997, Microsoft acquired Hotmail for a reported \$400 million to join Microsoft's Windows Live division. The service was localized for different markets worldwide. Although Hotmail joined the Windows Live division, the brand remained independent to protect its brand name and awareness.

The *Visio Corporation* was founded in 1990 as the Axon Corporation, then switched names to Shapeware in 1992.⁵⁴ In November 1992, its first application, Visio, was released. Later versions of the Visio application were developed specifically for Windows operating systems, and the company name changed yet again to Visio. In 2000, Microsoft acquired Visio in a stock swap, making the trade worth approximately \$1.5 billion. Visio was fully integrated into Microsoft's Office division.

Navision was founded in Denmark in 1983 as a company developing software solutions for enterprises. Its real-time ERP product connects external and internal business processes, providing up-to-date information to anyone with access to the system. In 2002, Microsoft acquired Navision for approximately \$1.45 billion and Navision was integrated into a new division: Microsoft Business Solutions (now Microsoft Dynamics). The takeover of Navision closely followed the acquisition of Great Plains, a similar business operating predominantly in North America. With the integration of Navision, Microsoft increased its competitive positioning in the accounting industry almost overnight.

aQuantive, the parent of three digital marketing service and technology companies, was founded in Seattle in 1997. In 2005, it ranked 14th in terms of revenue among global advertising agencies.⁵⁵ Microsoft acquired aQuantive on May 18, 2007, for about \$6 billion to grow its Internet advertising business. aQuantive continues to operate from its headquarters in Seattle as part of Microsoft's Online Services Business.

However, Microsoft's acquisition history also is somewhat mixed. The company has gained a reputation as a smart acquirer of start-ups and small companies and for its ability to identify technologies that it could integrate into products such as Windows, Office and Internet Explorer.⁵⁶ However, since 2000, the company has made far larger, riskier bids, with some less than successful results. In 2004, Microsoft entered into talks to buy the big business software company SAP for about \$50 billion, but the deal never materialized. In its 2007 acquisition of aQuantive for about \$6 billion, analysts assert that Microsoft overpaid. In 2008, the company offered \$48 billion to acquire Yahoo!, but talks broke down, and Microsoft eventually withdrew its bid.⁵⁷

The Acquisition of Skype

On May 10, 2011, Microsoft announced it had entered into a definitive agreement to acquire Skype for \$8.5 billion in cash. Skype's large and active user base (170 million connected users, more than 207 billion minutes of voice and video conversations in 2010) represented a major asset for Microsoft, according to its CEO Steve Ballmer.⁵⁸ He also stressed that Microsoft planned to expand Skype's business and inject its voice and video technology into a spectrum of products, from Xbox to its Office productivity software. "There are a lot of great opportunities to optimize Skype services in Microsoft products," he noted.⁵⁹

At the time of this announcement, experts suggested that the acquisition would give Microsoft a recognized brand name at a time when the firm was struggling to advance in the consumer market. In recent years, Microsoft had made serious investments in both marketing and improving the technologies of its Bing search engine.⁶⁰ The investment in Skype fell in line with Ballmer's beliefs that "the Internet is an essential battleground for Microsoft."⁶¹ With increased competition from Apple and Google on businesses such as Windows and Office, investors had grown more and more concerned with Microsoft's abilities to maintain profit margins. The acquisition of Skype could ensure additional economies of scale within the online and mobile telephony markets.

However, some skeptics also argued that the massive \$8.5 billion figure might mean Microsoft overpaid to acquire Skype (see Exhibit 5), with its reported \$686 million in long-term debts.⁶² In addition, the transaction was close to ten times more than Skype's 2010 annual revenues and more than 30 times its earnings; the acquisition cost Microsoft almost \$1000 per Skype user.⁶³ Moreover, eight key Skype executives departed the company following the acquisition, which strongly implied that the acquisition was not unanimously approved among Skype's employees.⁶⁴ Those who left were Don Albert, vice president and general manager for the Americas and Advertising; David Gurle, vice president and general manager for Skype for Business; Doug Bewsher, chief marketing officer; Russ Shaw, vice president and general manager; Christopher Dean, head of consumer market business development; and Anne Gillespie, head of human resources.

It was also speculated that Microsoft simply found a (productive) way to use its overseas pile of \$42 billion in cash, without being hit by a massive tax burden. Microsoft's options with such free cash flows were limited: grow businesses, make acquisitions overseas, or absorb an immense tax hit.⁶⁵

Although Skype's user base has increased enormously to more than 663 million registered users worldwide, revenues have not increased to the same level because of its freemium pricing concept.⁶⁶ Although paid users have gone up by 19% in 2010, they constitute a measly 1.3% of total users.⁶⁷ In 2007, revenues per user did not exceed \$0.40, so to effectively capture financial gains from a growing user base, Microsoft needs to continue to explore ways to monetize Skype. Ideally, Microsoft and Skype should join

forces to explore the possibilities of creating synergy through paid advertising in multiple ways.

How to Integrate Skype within Microsoft? Or Not?

“Microsoft and Skype share the vision of bringing software innovation and products to our customers,” said Tony Bates. “Together, we will be able to accelerate Skype’s plans to extend our global community and introduce new ways for everyone to communicate and collaborate.”⁶⁸ However, Skype and Microsoft also are facing a fast-moving landscape.

Despite critical analyses of Microsoft’s decision to acquire Skype,⁶⁹ this acquisition could be particularly helpful for Microsoft to enter into the world of “free products.” How Microsoft might leverage Skype’s users, and whether it can retain and grow them, serves as a stringent test of the success of the acquisition.⁷⁰ The most obvious place to integrate Skype within Microsoft would be Lync, Microsoft’s unified communications platform (see Exhibit 9).⁷¹ Microsoft Lync, used by 70% percent of the *Fortune* 500, is an enterprise real-time communications server, which provides the infrastructure for enterprise instant messaging, presence, file transfer, peer-to-peer and multiparty voice and video calling, and ad hoc and structured conferences (audio, video, and web).⁷² Lync enables communication within organizations, between organizations, and with external users on the Internet, or standard phones. “With the combination of the power of Lync and Skype under the same umbrella, we think we’re going to be able to do even more fantastic things together,” Steve Ballmer said. “Small businesses and enterprises deploying Lync would gain a secure form of communication with consumers and businesses benefiting from the integration of Lync and Skype,” he added.⁷³

Another opportunity for integration would be the Cloud, which Microsoft considers the key to the future. Skype would give to Microsoft a brand-aware user base keen to communicate in the cloud, across a richly connected social network. Such networking would provide significant opportunities to up-sell, cross-sell, and advertise.⁷⁴ In addition, by integrating Skype with its free cloud offerings, such as its free version of Office software, Microsoft can multiply linkages and revenue potential. Over time, Skype could be bundled and integrated into more products, such as Outlook, Windows Live, and Xbox Live, or even become a pre-installed component of Windows on the desktop.

Although Steve Ballmer announced directly after the acquisition that he planned to integrate Skype into many Microsoft product lines, the brand name and existing services will be preserved, and most of Skype's organizational structure will remain as it is. Tony Bates, Skype's CEO, will become president of the newly created Microsoft Skype Division. As part of the deal, Microsoft gave Skype a longer leash than it grants most of its existing divisions.⁷⁵ Skype's headquarters will remain in Silicon Valley. In addition, with offices in Sweden, Estonia, Luxembourg, Prague, and London, Skype will be the only Microsoft division located almost entirely outside the parent company's Seattle-area home base. To protect and preserve Skype's culture, Bates also insisted that his employees receive security badges stamped with the Skype logo, not the standard Microsoft badges.⁷⁶ This independence should help Skype pursue its core mission of allowing people to make calls from practically any device connected to the Internet, not just the ones running on Microsoft software. While most Skype calls still happen on Windows PCs, its future growth is likely to come from new mobile devices, a category in which Microsoft is not market leader. Such a development could create difficulties with regard to achieving synergies.

The acquisition remains a significant dilemma for Steve Ballmer and Microsoft: How can Microsoft integrate and leverage Skype's successful free business model without destroying it? Can Microsoft simultaneously serve users looking for free products and its main market of paying customers looking for best-in-class software? The challenge is a thorny one. Microsoft already launched free versions of its Office software to the cloud, but its dependence on the paid version of the product remains critical—especially because both versions are under heavy attack from free products, such as Google Docs.⁷⁷

Skype has figured out how to make money (about \$1 billion in revenue) off of free products. That is why protecting Skype's organization and refusing to integrate into the Microsoft organizational structure is so important. Even as this approach protects Skype's free products business model, it also makes synergies between Skype's technology and other Microsoft products more difficult. If Microsoft pushes aggressively for integration with paid products or if the demands for direct revenue from products that integrate Skype begin dictating resource allocation, the autonomous divisional structure could break down.⁷⁸

Although some analysts also remain critical of Microsoft's decision to acquire Skype, the acquisition strengthens Microsoft's global position in multiple markets: mobile, Internet voice, and video communications. Skype could play a role in Microsoft's efforts to gain a foothold in the mobile phone market, where it has seriously lagged behind rivals such as Apple and Google.⁷⁹ Skype provides direct access to mobile applications, including video conferencing and calling, which both Google and Apple already have integrated into their devices. Buying Skype could give Microsoft a dominant position in the fast-growing market for Internet communications, for both consumers and businesses. Because "Google is way behind Skype, ... getting ahead of Google in this market was certainly an incentive for Microsoft."⁸⁰

What is certain is that for Microsoft to make the most of the acquisition, it will have to determine whether to integrate Skype and to what extent Skype can remain an independent entity. Without determining in advance the ways a strategic fit could be created between the resources and assets of these companies, their merger may not produce synergy. Can Microsoft succeed where eBay failed? Will Microsoft be able to implement synergies with Skype? And how will Microsoft recoup its investment, when Skype's service is free for its users?

Exhibit 1. Skype's Services

<p>Skype Credit and Skype Pro</p> <ul style="list-style-type: none"> • Calling landline and cell phones • Receiving calls • Voicemail • Text messaging • Call forwarding • Call transfer • Auto-recharge • Skype To Go number • Skype Prime • Send Money • Premium calls • Business Control Panel • All rates <p>Contracts</p> <ul style="list-style-type: none"> • Skype Name • Presence • Adding contacts • Contact list • Importing contacts • Group contacts • Profile • Quickfilter • Outlook contacts 	<p>Call</p> <ul style="list-style-type: none"> • Skype-to-Skype calls • Call phones and cell phones • Conference calls • Skype Prime • Skypecasts • Call forwarding • Call transfer • SkypeFind <p>Video</p> <ul style="list-style-type: none"> • Video calls • Video snapshot <p>Chats</p> <ul style="list-style-type: none"> • Instant Messaging • Group chats • Public chats • Emoticons • File transfer <p>Personalize</p> <ul style="list-style-type: none"> • Profile • Mood • Video in mood 	<p>Area in Skype</p> <ul style="list-style-type: none"> • Call Phones tab • History tab • Live tab • Alerts • Events • Account • Skype Extras <p>Accessories</p> <ul style="list-style-type: none"> • Cordless phones • Headsets • Webcams • WiFi phones <p>Software</p> <ul style="list-style-type: none"> • Skype for Windows • Skype for Mac OS X • Skype for Linux • Skype for Windows with MSI Installer • Skype for Windows Mobile • Skype for Nokia N800/N810 • Skype for iOS (iPhone) • Skype for Android • Skype on Symbian • Skype on 3 • Email toolbar • Office toolbar • Skype Zones
---	--	--

Source: Compiled from www.skype.com/allfeatures.

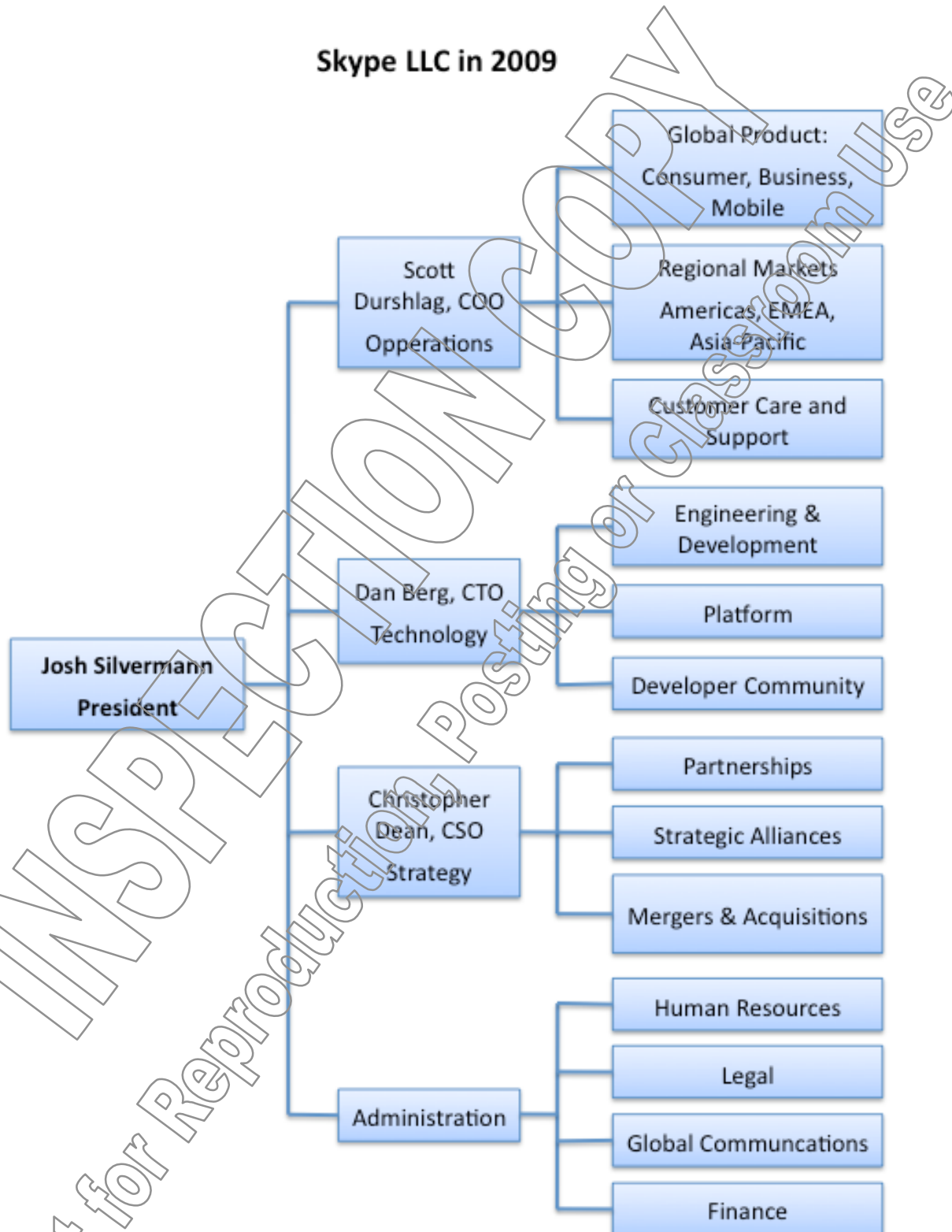
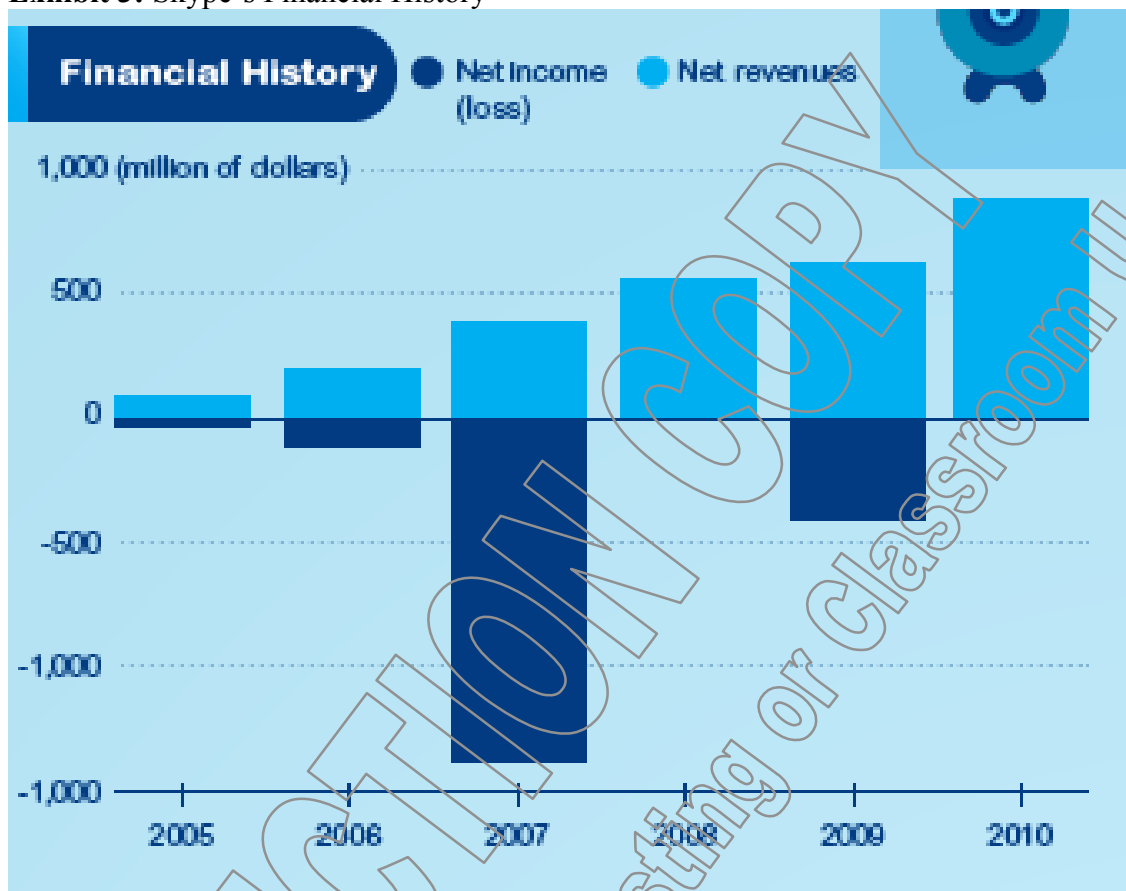
Exhibit 2. Skype's Organizational Structure in 2009

Exhibit 3: Skype's Financial History

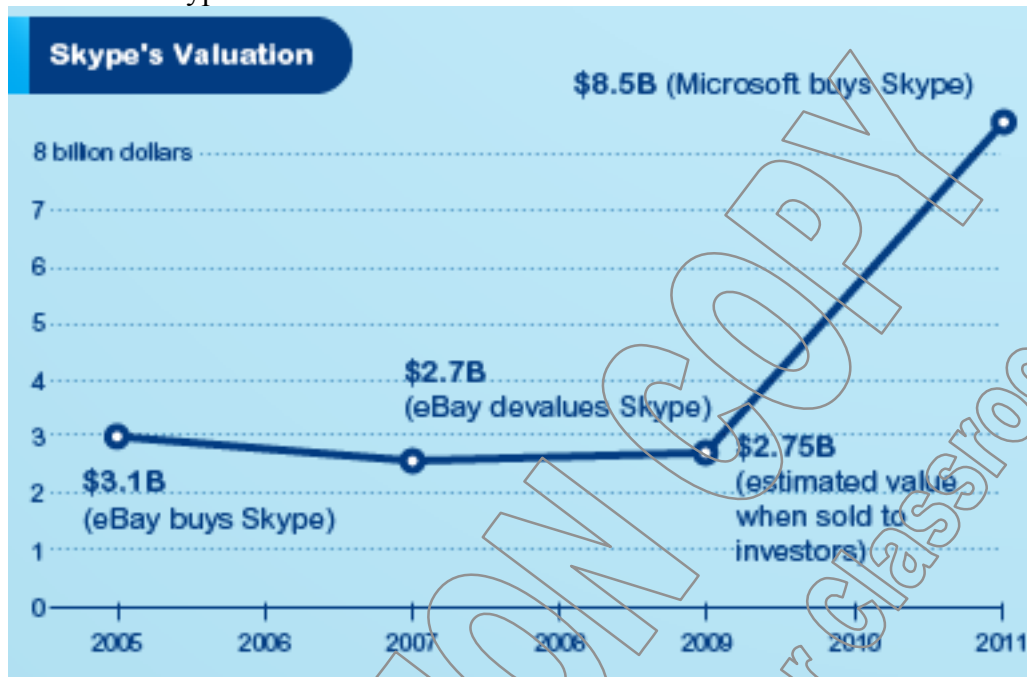
Source: www.focus.com.

Exhibit 4: Skype's Main Competitors

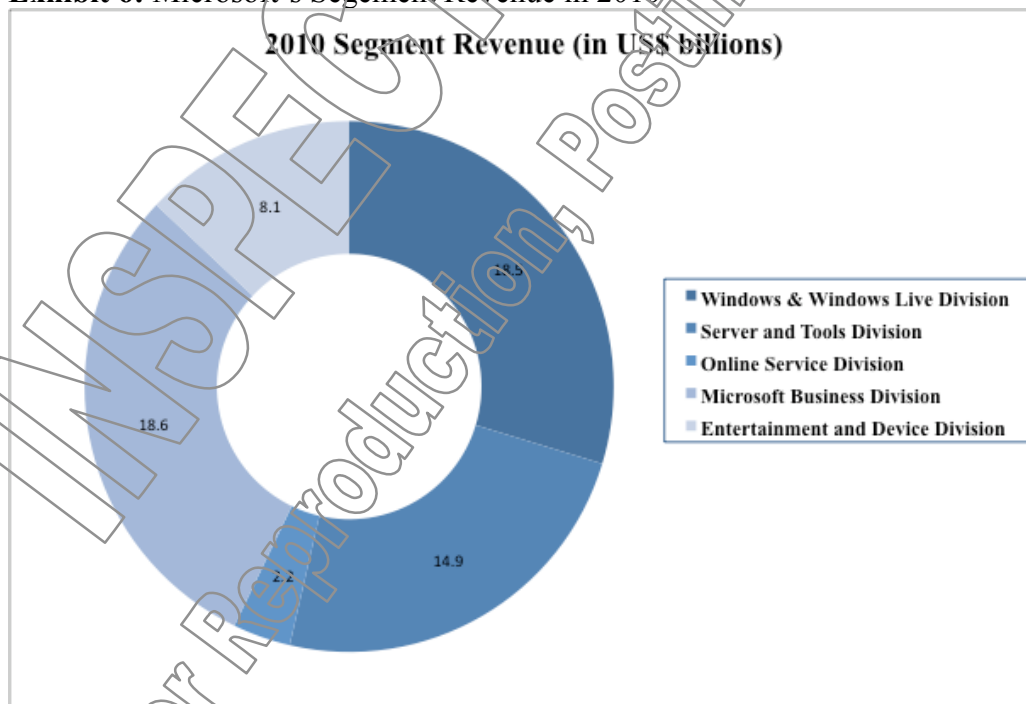
Competition	Voice call (P2P)	Phone call (calling in)	Video call	Instant messaging	Desktop sharing	File sharing	
Skype	✓	✓	✓	✓	✓	✓	Free Skype-to-Skype calls and video calls, call home and cell phones, group video calls, instant messaging, file sharing and more.
Google Voice	✓	✓	✓	✗	✗	✗	Free PC-to-PC voice and video calls, and free PC-to-phone calls in North America, configured through Gmail.
Apple FaceTime	✗	✓	✓	✗	✗	✗	iPhone, iPad, iPod Touch and Mac users can make free video calls to one another.
Facebook chat	✗	✗	✗	✓	✗	✗	Chat one-on-one or in a group chat. It's also supported by other instant messaging clients.
GoToMeeting	✗	✗	✓	✓	✓	✗	Desktop sharing software that allows people to conference via phone or computer, chat.
Cisco WebEx	✗	✗	✓	✓	✓	✓	Webinars that allow you to share your desktop while phone conferencing and video.

*Skype, Google Voice and Apple FaceTime offer robust free services, whereas GoToMeeting and Cisco WebEx offer paid features.

Source: www.focus.com.

Exhibit 5: Skype's Valuation

Source: www.focus.com.

Exhibit 6: Microsoft's Segment Revenue in 2010

Source: www.microsoft.com.

Exhibit 7: Income Statements (in millions, except per share amounts)

	2011	2010	2009	2008
Revenue	\$ 69,943	\$ 62,484	\$ 58,437	\$ 60,420
Operating expenses:				
Cost of revenue	15,577	12,395	12,155	11,598
Research and development	9,043	8,714	9,010	8,164
Sales and marketing	13,940	13,214	12,879	13,260
General and administrative	4,222	4,063	4,030	5,127
Total operating expenses	42,782	38,386	38,074	38,149
Operating income	27,161	24,098	20,363	22,271
Other income (expense)	910	915	(642)	1,543
Income before income taxes	28,071	25,013	19,721	23,814
Provision for income taxes	4,921	6,253	5,252	6,133
Net income	\$ 23,150	\$ 18,760	\$ 14,569	\$ 17,681
Earnings per share:				
Basic	\$ 2.73	\$ 2.13	\$ 1.63	\$ 1.90
Diluted	\$ 2.69	\$ 2.10	\$ 1.62	\$ 1.87
Weighted average shares outstanding:				
Basic	8,490	8,813	8,945	9,328
Diluted	8,593	8,927	8,996	9,470
Cash dividends declared per common share	\$ 0.64	\$ 0.52	\$ 0.54	\$ 0.44

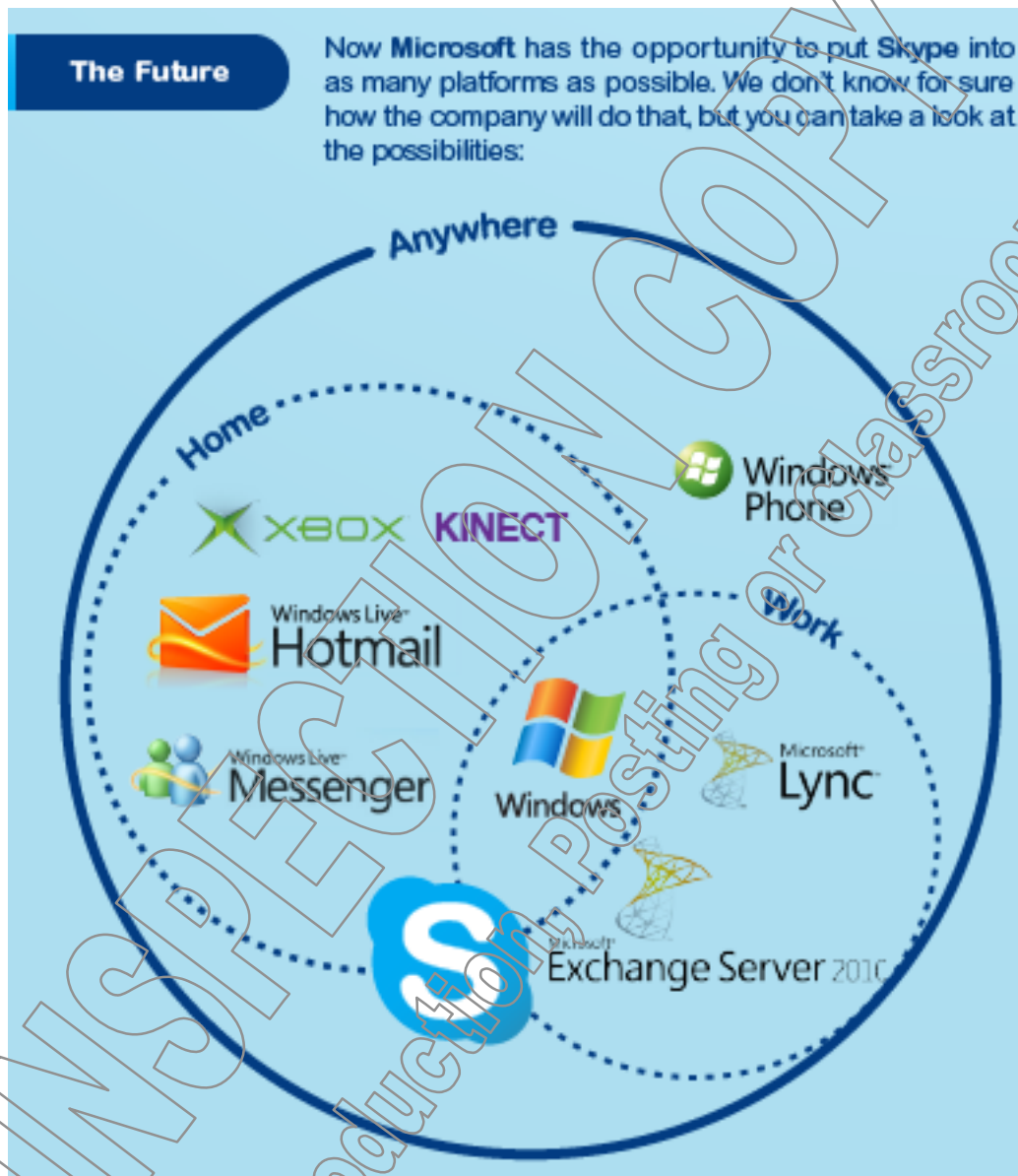
Notes: Year ending June 30.

Exhibit 8: Significant Microsoft Acquisitions, 2005–2011

2011	VideoSurf Inc.	A provider of a back-end computer vision technology that “sees” frames inside videos to make discovering content fast, easy, and accurate.
	Prodiance	A leading provider of enterprise risk management (ERM) software.
	Skype	Communication software whose purpose is to break down barriers to communication. With an Internet-connected device, families, friends, and colleagues can get together for free with messaging, voice, and video.
2010	Canesta, Inc.	A developer of 3D electronic perception technology for natural user interaction, gaming, and more.
	AVIcode	A private company recognized as a leader in .NET application performance monitoring.
2009	Opalis Software	A leader in IT process automation software.
	Sentillion	A company specializing in software for the healthcare industry.
	Teamprise	The Teamprise-related assets of SourceGear LLC enable developers to build applications with Microsoft Visual Studio Team Foundation Server.
	Interactive Super Computing	A company that specializes in bringing the power of parallel computing to the desktop and making high performance computing more accessible to end users.
	BigPark Inc.	An interactive online gaming company.
2008	Greenfield Online Inc	A European price comparison, shopping, and consumer review site.
	DATAllegro Inc.	A provider of breakthrough data warehouse appliances.
	Zoomix	A provider of data-quality technology
	Powerset	A provider of a semantic search engine
	MobiComp	A company that enables the backup and restoration of mobile data and mobile posting of social content to websites such as Facebook.
	Navic Networks	A leading provider of television advertising solutions
	Farecast	A travel search site
	Komoku	A provider of advanced rootkit security detection solutions.
	Rapt Inc.	A leading provider of advertising yield management solutions for digital media publishers
	Kidaro	A provider of desktop virtualization solutions for enterprises
	Credentica	The U-Prove technology bought from Credentica was a privacy/security protection mechanism
	YaData	A provider of advanced tools for the discovery of unique customer segments
	Danger Inc.	A key provider of software and services that powered many popular consumer handsets
	Caligari Corporation	A pioneer of 3-D modeling, rendering and animation software
	Calista Technologies	A leading provider of graphics technologies for next-generation desktop and presentation virtualization solutions
	Fast Search & Transfer ASA	A leading provider of enterprise search solutions
2007	Multimap	One of the leading online mapping services in the world
	Global Care Solutions	A firm that developed enterprise-class health information systems
	Pariano	The maker of MindAlign, a leading application for enterprise group chat
	AdECN, Inc.	An advertising exchange platform company
	aQuantive, Inc.	The parent company of one of the industry’s most successful families of digital marketing service and technology companies
	ScreenTonic	A Europe-based mobile advertizing pioneer

	Tellme Networks, Inc.	A leading provider of voice services for everyday life
	Medstory Inc	A developer of intelligent Web search technology specifically for health information
2006	Colloquis	A provider of conversational online business solutions that feature natural language-processing technology
	Azyxxi	Health intelligence software designed by doctors for doctors using Microsoft development tools, bringing together all types of patient data and made them instantly available
	Winternals	A provider of systems recovery and data protection solutions for Windows-based enterprises
	Softricity	A leading provider of application virtualization and dynamic streaming technologies
	Whale Communications	A leading provider of secure access products
	Massive Inc.	The creator of a world-leading network for video game advertising
	Lionhead Studios	One of the world's leading and most innovative video game developers and creators of "Fable," the hit Xbox franchise
	ProClarity Corp	A software company that developed advanced analysis and visualization technologies
	Apptimum Inc.	An application company which provided products that transferred customers' applications to new computers
	Onfolio Inc.	An Internet research and information management provider
	Motion Bridge	A leading provider of search technology designed specifically for mobile operators and the mobile Internet
2005	Alacris Inc.	A global provider of certificate management and identity assurance software products
	FolderShare	A provider in file synchronization and remote access technology
	media-streams.com	A software company that developed communications applications based on voice-over-Internet protocol technology
	AG	A provider of voice-over-Internet protocol software and services
	Teleo Inc.	A provider of voice-over-Internet protocol software and services
	FrontBridge Technologies	A leading provider of managed services that addressed corporate e-mail security, compliance, and availability requirements
	Groove Networks Inc.	A leading provider of collaboration software for the "virtual office"
	Sybari Software Inc.	A leading provider of security products

Source: Microsoft (<http://www.microsoft.com/investor/Stock/AcquisitonHistory/All/default.aspx>).

Exhibit 9: Integrating Skype within Microsoft

Source: www.focus.com

REFERENCES

- ¹ Microsoft Press Release, May 10, 2011 (<http://www.microsoft.com/presspass/press/2011/may11/05-10corpnewspr.msp>)
- ² *Ibid.*
- ³ "Microsoft to Buy Skype for \$8.5 Billion," *The New York Times* (May, 10, 2011), <http://dealbook.nytimes.com/2011/05/10/microsoft-to-buy-skype-for-8-5-billion>.
- ⁴ Skype Press Release, September 12, 2005, "eBay to Acquire Skype" (http://about.skype.com/2005/09/ebay_to_acquire_skype.html).
- ⁵ Freemium is a business model by which a product or service is provided free of charge, but a premium is charged for advanced features, functionality, or virtual goods. The word "freemium" is a portmanteau combining the two aspects of the business model: "free" and "premium" (Wikipedia).
- ⁶ Skype Press Release, September 12, 2005, op. cit.
- ⁷ Microsoft Press Release May 10, 2011, op. cit.
- ⁸ *Ibid.*
- ⁹ Skype Press Release, September 12, 2005, op. cit.
- ¹⁰ "A Brief history of Skype," May 10, 2011 (<http://techland.time.com/2011/05/10/a-brief-history-of-skype/#ixzz1gVIA5NZP>)
- ¹¹ "The history of Skype" (http://www.ehow.com/about_5206541_history-skype.html#ixzz1gVKJjNTx)
- ¹² "Skype Closes "B" Round Funding from Top Venture Capitalists," March 15, 2003 (<http://www.prnewswire.co.uk/cgi/news/release?id=119130>).
- ¹³ "The history of Skype," op. cit.
- ¹⁴ Skype Press Release, September 12, 2005, op. cit.
- ¹⁵ *Ibid.*
- ¹⁶ "What Would Meg Do," *Forbes*, May 21, 2007 (<http://www.forbes.com/forbes/2007/0521/094.html>).
- ¹⁷ eBay Press Release, April 14, 2009, "eBay Inc. Announces Plan for 2010 Initial Public Offering of Skype" (http://www.ebayinc.com/content/press_release/20090414006417).
- ¹⁸ eBay Financial Release, March 11, 2009, "eBay Inc. Announces Three-Year Roadmap for Growth" (http://investor.ebayinc.com/financial_releases.cfm); Knowledge@Wharton, "Skype's Life after eBay: Free in More Ways Than One," September 23, 2009 (<http://knowledge.wharton.upenn.edu/article.cfm?articleid=2340>).
- ¹⁹ <http://ebayinkblog.com/2009/04/14/breaking-ebay-inc-announces-plan-for-2010-ipo-of-skype/>
- ²⁰ Knowledge@Wharton, op. cit.
- ²¹ Stone, Brad, "In a Sale, Skype Wins a Chance to Prosper," *The New York Times*, September 2, 2009 (http://www.nytimes.com/2009/09/02/technology/companies/02ebay.html?_r=0).
- ²² *Ibid.*
- ²³ Knowledge@Wharton, op. cit.
- ²⁴ Courtney, Jim, "The Skype Restructuring: Global Products, Regional Markets," *Skype Journal*, January 23, 2009 (<http://skypejournal.com/>).
- ²⁵ *Ibid.*
- ²⁶ *Ibid.*
- ²⁷ "Skype Is Preparing an IPO," August 9, 2010 (<http://www.livetradingnews.com/skype-is-preparing-a-ipo-18545.htm>).
- ²⁸ "Skype files registration statement for initial public offering," August 9, 2010 (<http://about.skype.com/press/2010/08/ipo.html>).
- ²⁹ Reuters, November 1, 2010 (<http://www.reuters.com/assets/print?aid=USTRE6A05N220101101>).

- ³⁰ “Skype brings video calling to iPhones,” December 30, 2010 (http://about.skype.com/press/2010/12/iphone_video_calls.html).
- ³¹ “Microsoft to Buy Skype,” op. cit.
- ³² Google Voice (http://en.wikipedia.org/wiki/Google_Voice).
- ³³ Nigam, S., “Is Skype Ready for Its Own Future?” *BusinessWeek*, January 11, 2010 (<http://bx.businessweek.com/equity-research/view?url=http%3A%2F%2Fyoungandinvested.com%2Fstocks-and-companies%2Fis-skype-ready-for-its-own-future%2F>).
- ³⁴ “25 Million Google+ Users: Does It Matter?” *PC Magazine*, August 3, 2011 (<http://www.pcmag.com/article2/0,2817,2390356,00.asp>).
- ³⁵ <http://liferhacker.com/5724836/battle-of-the-ios-video-chat-applications-facetime-vs-skype>.
- ³⁶ Company Information (<http://www.gotomeeting.com>).
- ³⁷ Crunchbase WebEx Company Info (<http://www.crunchbase.com/company/webex/>).
- ³⁸ WebEx timeline (http://www.webex.com/pdf/webex_timeline.pdf).
- ³⁹ Reuters, “Telefonica Buys Internet Phone Provider Jajah,” December 23, 2009 (<http://www.reuters.com/article/idUSLDE5BM1H320091223>).
- ⁴⁰ OoVoo (<http://en.wikipedia.org/wiki/OoVoo>).
- ⁴¹ OoVoo Company Information (<http://www.oovoo.com/home.aspx>).
- ⁴² *Ibid.*
- ⁴³ <http://gigaom.com/2005/06/09/skype-yahoo-in-merger-talks/>.
- ⁴⁴ “Three Competitors Threaten Skype with a Smackdown: Analysis,” March 29 (n.k.) (http://www.myvoipprovider.com/en/VoIP_News_Archive/VoIP_Provider_News/Three_Competitors_Threaten_Skype_With_A_Smackdown%3A_Analysis).
- ⁴⁵ “Total Number of Users of Yahoo Messenger,” April 17, 2006 (<http://www.bigblueball.com/forums/yahoo-messenger-support/35094-total-number-users-yahoo-messenger-worldwide.html>).
- ⁴⁶ “Why Cisco Wants to Purchase Skype,” *PC World*, August 30, 2010 (http://www.pcworld.com/businesscenter/article/204408/why_cisco_wants_to_purchase_skype.html).
- ⁴⁷ “Google Skype Acquisition Rumors,” April 18, 2008 (<http://www.dslreports.com/shownews/Google-Skype-Acquisition-Rumor-93705>).
- ⁴⁸ <http://pt.wikinoticia.com/Tecnologia/geral%20tecnologia/83436-movements-around-skype-and-its-possible-meanings>.
- ⁴⁹ <http://www.stevenlevy.com/index.php/05/10/why-google-does-not-own-skype>.
- ⁵⁰ “Skype May Be Next Google or Facebook Acquisition,” May 5, 2011 (<http://www.geek.com/articles/news/skype-may-be-next-google-or-facebook-acquisition-2011055/>).
- ⁵¹ <http://www.fastcompany.com/1507828/windows-7-fastest-selling-os-history>.
- ⁵² Microsoft 2010 Annual Report (http://www.microsoft.com/investor/reports/ar10/10k_fr_bus.html).
- ⁵³ List of Mergers and Acquisitions by Microsoft (http://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Microsoft).
- ⁵⁴ Visio Corporation (http://en.wikipedia.org/wiki/Visio_Corporation).
- ⁵⁵ aQuantive (<http://en.wikipedia.org/wiki/AQuantive>).
- ⁵⁶ “Microsoft to Buy Skype,” op. cit.
- ⁵⁷ *Ibid.*
- ⁵⁸ *Ibid.*
- ⁵⁹ *Ibid.*
- ⁶⁰ Das, Anupreeta and Wingfield, Nick, “Microsoft Near Deal to Acquire Skype: Software Giant Could Pay Nearly \$8 Billion for Company,” *Wall Street Journal*, May 10, 2011 (<http://online.wsj.com/article/SB10001424052748703730804576313932659388852.html>).

- ⁶¹ *Ibid.*
- ⁶² Bright, Peter, "Microsoft Buys Skype for \$8.5 Billion. Why, Exactly?" *Wired*, May 10, 2011 (www.wired.com/business/2011/05/microsoft-buys-skype-2/).
- ⁶³ *Ibid.*
- ⁶⁴ http://www.macworld.com/article/1160632/skype_microsoft.html.
- ⁶⁵ *Forbes*, "Live Blog: Microsoft And Skype Talk About The Deal, May 10, 2011 (http://blogs.forbes.com/tomiogeron/2011/05/10/live-blog-microsoft...al/?utm_source=allactivity&utm_medium=rss&utm_campaign=20110510).
- ⁶⁶ Skype (<http://en.wikipedia.org/wiki/Skype>).
- ⁶⁷ "TechCrunch: Skype Revenue up 20%" (<http://techcrunch.com/2011/03/07/skype-revenue-up-20-percent-to-860m-in-2010-paid-users-up-19-percent/>).
- ⁶⁸ "Microsoft to Buy Skype," op. cit.
- ⁶⁹ Bryce, David J., "Microsoft's Skype Deal: How to Make it Work," *HBR Blog Network*, May 13, 2011 (http://blogs.hbr.org/cs/2011/05/microsofts_skype_deal_how.html).
- ⁷⁰ *Ibid.*; "Microsoft at Work," *The New York Times*, May 28, 2012, <http://www.nytimes.com/2012/05/29/technology/microsoft-at-work-0...its-products-with-skype.html?>
- ⁷¹ Bryce, op. cit.
- ⁷² Microsoft Lync Server (http://en.wikipedia.org/wiki/Microsoft_Lync_Server).
- ⁷³ <http://www.networkworld.com/news/2011/071211-microsoft-skype-lync.html>.
- ⁷⁴ <http://arstechnica.com/business/2011/10/skypes-future-under-microsoft-integration-everywhere/>.
- ⁷⁵ "Microsoft at Work," op. cit.
- ⁷⁶ *Ibid.*
- ⁷⁷ Bryce, op. cit.
- ⁷⁸ *Ibid.*
- ⁷⁹ Das, Anupreeta and Wingfield, Nick, "Microsoft Near Deal to Acquire Skype: Software Giant Could Pay Nearly \$8 Billion for Company," *Wall Street Journal*, May 10, 2011 (<http://online.wsj.com/article/SB10001424052748703730804576313932659388852.html>).
- ⁸⁰ "Microsoft To Buy Skype," op. cit.